

# Administrative Services

The Administrative Services Division provides staff support for information technology, personnel management, record and mail services, word processing, and all fiscal operations, including development and administration of the agency's budget. The Department is funded from three sources.

More than 98% of our appropriation comes from the Insurance Financial Regulation Fund and the Insurance Producer Administration Fund which are funded by various taxes and fees collected from insurance companies and producers. The balance of our appropriation comes from the General Revenue Fund (GRF). In addition, our Senior Health Insurance Program (SHIP) receives funding from a federal grant.

For FY 2000, the Department's appropriation was \$27 million. Of that total, only \$455,000 was allocated from the GRF, while federal funds for SHIP contributed \$600,000. Revenue collections for the year totaled \$252,297,770 of which \$212,811,138 was deposited into the General Revenue Fund.

As of June 30, 2000, the Department had \$12,988,952 in net accounts receivable on the books from 1,894 accounts. Of those, \$5,624,787 was from privilege tax litigation cases stemming from a 1997 Supreme Court decision that the tax was unconstitutional. Another \$6,283,200 came from annual financial regulation fee billings under 23 days old. Thus a total of \$1,080,965 more accurately reflects the Department's accounts receivable.

The Department sends a past due letter on accounts receivable over 30 days. After 60 days, the originator of the accounts receivable is requested to assist in the collection. After 75 days, a request is made to initiate regulatory action against the insurance company or individual licensee. If an account is outstanding after 90 days, the account is submitted to the Comptroller's Offset System. After 180 days, the account is reported to the Debt Collection Board and submitted to a collection agency.

<i>Department Staff</i>	
Administrative	40
Consumer	125
Financial/Corporate	123
Pension	15
Staff	30
EDP	<u>23</u>
<b>Total</b>	<b>356</b>

*Comparative Statement of Taxes and Fees Collected*  
*Period Ending June 30, 2000*

<b>Taxes &amp; Fees</b>	<b>FY 00</b>	<b>FY 99</b>
1st Quarter Privilege Tax	\$ 23,961,529.12	\$ 17,266,605.49
2nd Quarter Privilege Tax	25,728,896.12	18,687,533.28
3rd Quarter Privilege Tax	18,949,546.78	19,938,430.16
4th Quarter Privilege Tax	21,554,927.65	24,842,321.31
1st Quarter Retaliatory Tax	16,492,708.70	11,132,745.46
2nd Quarter Retaliatory Tax	17,309,948.59	31,494,885.08
3rd Quarter Retaliatory Tax	15,581,720.24	19,866,062.44
4th Quarter Retaliatory Tax	16,065,747.83	22,715,941.44
Final Privilege Tax	36,659,790.26	24,808,209.86
Final Retaliatory Tax	13,279,263.80	12,130,735.04
Surplus Line Tax	6,010,736.58	7,411,588.42
Risk Group Tax	6.66	189,131.70
Valuation of Reserve Fee	0.00	0.00
Pension Annual Statement	0.00	509,211.18
Fines & Penalties	1,071,210.13	1,274,662.15
Interest	140,887.90	22,055.33
Miscellaneous	4,218.16	4,254.73
<b>Subtotal for General Revenue Fund</b>	<b>\$212,811,138.52</b>	<b>\$212,294,373.07</b>
Producer Licenses	11,361,423.00	8,308,549.49
Producer Reinstatement Fee	451,790.00	474,960.00
Producer Appointment Fee	456,935.00	485,275.00
Producer Provider Education	260,465.00	264,375.00
Producer Market Conduct Exams	548,288.75	690,010.75
Producer Fines & Penalty	30.00	700.00
Producer Market Conduct Travel	149,498.51	211,925.93
Producer Miscellaneous	25,782.33	25,862.13
<b>Subtotal for Insurance Producer Fund</b>	<b>\$13,254,212.59</b>	<b>\$10,461,658.30</b>
Fire Marshal Tax (Company)	11,485,009.82	11,075,771.31
Fire Marshal Tax (Surplus Lines)	288,330.65	310,258.94
<b>Subtotal for Fire Prevention Fund</b>	<b>11,773,340.47</b>	<b>11,386,030.25</b>
<b>LAH:</b>		
Annual Statement Filing	74,675.00	78,475.00
Corporate Documents	100,225.00	91,256.00
Certificate Fees	131,055.00	146,540.00
Policy Form Filings	298,750.00	324,500.00
Fines and Penalties	0.00	
Miscellaneous	26,829.58	36,019.46
Domestic Financial Regulation Fee	1,628,400.00	1,321,570.00
Foreign Financial Regulation Fee	2,524,600.00	2,229,500.00
<b>PC:</b>		
Cost Containment	2,500,100.00	0.00
Annual Statement Filing	106,262.65	104,375.00
Surplus Lines Licenses	96,800.00	93,060.00
Corporate Documents	207,460.00	195,625.00
Certificate Fees	210,050.06	219,549.00
Policy Form Filings	743,048.00	785,175.00
Fines and Penalties	200.00	0.00
RCPT, etc.	104,628.75	125,858.00
Miscellaneous	45,019.83	31,605.20
Domestic Financial Regulation Fee	2,162,800.00	1,773,530.00
Foreign Financial Regulation Fee	2,665,300.00	2,037,200.00
Financial Exam Travel	343,320.68	476,144.69
<b>Subtotal for Insurance Financial Regulation Fund</b>	<b>\$13,969,524.55</b>	<b>10,069,982.35</b>
<b>Public Pension Fees</b>	<b>\$489,544.11</b>	
<b>Total for All Funds</b>	<b><u>\$252,297,770.24</u></b>	<b><u>\$244,212,043.97</u></b>

*Securities Deposited by Insurance Companies for FY 2000*

Domestic Stock Life	82	\$231,351,000.00
(Special Policy Fund)	4	980,000.00
Domestic Mutual Life	6	11,600,000.00
Domestic Assessment Life	2	430,000.00
Domestic Stock Property & Casualty	178	381,464,500.00
Domestic Mutual Property & Casualty	15	36,092,000.00
Domestic Inter-Insurance Exchange	4	6,950,000.00
INEX Insurance Exchange	1	2,500,000.00
Burials	2	16,000.00
Bond Certificates	26	1,107,875.00
Mutual Benefit Association	1	65,000.00
Health Maintenance Organizations	28	10,458,000.00
Limited Health Service Organizations	9	839,000.00
<b>Total:</b>	<b>358</b>	<b>683,853,375.00</b>
Foreign Workers Compensation	43	504,159,000.00
Foreign & Alien	22	36,330,000.00
Service Contract Providers	17	524,000.00
Mutual Trust Holding	2	3,050,000.00
<b>Total on Deposit June 30, 2000</b>	<b>442</b>	<b>1,227,916,375.00</b>

FY 00 Appropriations and Disbursements  
July 1, 1999—June 30, 2000

*General Revenue Fund*

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personnel Services	\$334,300.00	\$0.00	\$330,986.04	\$3,313.96
Retirement—Employee	13,400.00	0.00	13,247.21	152.79
Retirement	32,800.00	0.00	32,171.71	628.29
Social Security	25,600.00	0.00	24,548.51	1,051.49
Travel	34,200.00	0.00	23,156.78	11,043.22
Printing	10,500.00	0.00	686.00	9,814.00
Telecommunications	<u>5,000.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>0.00</u>
<b>Total</b>	<b><u>\$455,800.00</u></b>	<b><u>\$0.00</u></b>	<b><u>\$429,796.25</u></b>	<b><u>\$26,003.75</u></b>

FY 00 Appropriations and Disbursements  
July 1, 1999—June 30, 2000

*Public Pension Regulation Fund*

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriations</b>
Personnel Services	\$252,300.00	\$0.00	\$247,849.10	\$4,450.90
Retirement—Employee	10,100.00	0.00	9,616.11	483.89
Retirement	24,700.00	0.00	24,080.32	619.68
Social Security	19,300.00	0.00	18,491.58	808.42
Group	40,600.00	0.00	36,416.78	4,183.22
Contractual	20,000.00	0.00	3,758.03	16,241.97
Travel	19,000.00	0.00	16,265.85	2,734.15
Equipment	10,000.00	0.00	4,073.22	5,926.78
Telecommunications	1,000.00	0.00	978.94	21.06
<b>Total</b>	<b><u>\$397,000.00</u></b>	<b><u>\$0.00</u></b>	<b><u>\$361,529.93</u></b>	<b><u>\$35,470.07</u></b>

*Insurance Producers Fund*

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriations</b>
Personnel Services	\$6,549,300.00	\$0.00	\$6,302,787.43	\$246,512.57
Retirement—Employee	262,000.00	0.00	247,615.92	14,384.08
Retirement	641,800.00	0.00	612,479.90	29,320.10
Social Security	486,400.00	0.00	461,283.00	25,117.00
Group Insurance	991,800.00	0.00	918,774.41	73,025.59
Contractual Services	1,110,500.00	0.00	1,026,166.79	84,333.21
Travel	327,000.00	0.00	315,615.30	11,384.70
Commodities	56,000.00	0.00	55,358.20	641.80
Printing	76,300.00	0.00	68,049.39	8,250.61
Equipment	254,300.00	0.00	209,097.89	45,202.11
Telecommunications	182,000.00	0.00	141,792.76	40,207.24
Automotive Equipment	10,600.00	0.00	7,830.83	2,769.17
Lump Sum	323,500.00	0.00	285,544.20	37,955.80
Refund	<u>91,000.00</u>	<u>0.00</u>	<u>89,680.00</u>	<u>1,320.00</u>
<b>Total</b>	<b><u>\$11,362,500.00</u></b>	<b><u>\$0.00</u></b>	<b><u>\$10,742,076.02</u></b>	<b><u>\$620,423.98</u></b>

*Insurance Financial Regulation Fund*

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriation</b>
Personnel Services	\$8,708,800.00	\$0.00	\$8,643,157.65	\$65,642.35
Retirement—Employee	348,400.00	0.00	337,526.18	10,873.82
Retirement	853,400.00	0.00	840,115.72	13,284.28
Social Security	650,500.00	0.00	620,437.74	30,062.26
Group Insurance	1,166,000.00	0.00	1,122,768.94	43,231.06
Contractual Services	1,484,400.00	0.00	1,389,210.70	95,189.30
Travel	650,000.00	0.00	614,729.41	35,270.59
Commodities	58,000.00	0.00	45,302.91	12,697.09
Printing	50,000.00	0.00	31,515.20	18,484.80
Equipment	104,100.00	0.00	76,656.43	27,443.57
Telecommunications	130,000.00	0.00	109,649.05	20,350.95
Automotive Equipment	7,100.00	0.00	5,972.56	1,127.44
Refunds	<u>20,000.00</u>	<u>0.00</u>	<u>18,572.00</u>	<u>1,428.00</u>
<b>Total</b>	<b><u>\$14,230,700.00</u></b>	<b><u>\$0.00</u></b>	<b><u>\$13,855,614.49</u></b>	<b><u>\$375,085.51</u></b>

*Combined Funds*

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriations</b>
Personnel Services	\$15,844,700.00	\$0.00	\$15,524,780.22	\$319,919.78
Retirement—Employee	633,900.00	0.00	608,005.42	25,894.58
Retirement	1,552,700.00	0.00	1,508,847.65	43,852.35
Social Security	1,181,800.00	0.00	1,124,760.83	57,039.17
Group Insurance	2,198,400.00	0.00	2,077,960.13	120,439.87
Contractual Services	2,614,900.00	0.00	2,419,135.52	195,764.48
Travel	1,030,200.00	0.00	969,767.34	60,432.66
Commodities	114,000.00	0.00	100,661.11	13,338.89
Printing	136,800.00	0.00	100,250.59	36,549.41
Equipment	368,400.00	0.00	289,827.54	78,572.46
Telecommunications	318,000.00	0.00	257,420.75	60,579.25
Automotive Equipment	17,700.00	0.00	13,803.39	3,896.61
Lump Sum	923,500.00	0.00	826,224.07	97,275.93
Refunds	<u>111,000.00</u>	<u>0.00</u>	<u>108,252.00</u>	<u>2,748.00</u>
<b>Total</b>	<b><u>\$27,046,000.00</u></b>	<b><u>\$0.00</u></b>	<b><u>\$25,929,696.56</u></b>	<b><u>\$1,116,303.44</u></b>

*Senior Health Insurance Plan*

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Disbursements</b>
Lump Sum	<u>\$600,000.00</u>	<u>\$540,700.00</u>
<b>Total</b>	<b><u>\$600,000.00</u></b>	<b><u>\$540,700.00</u></b>

# Consumer Protection

The Consumer Market Division oversees the Department's consumer protection and education programs, licenses and regulates the activities of insurance producers, and monitors the marketplace

operations of insurance companies through policy analysis, complaint investigation and periodic on-site examinations.

## *Consumer Assistance and Education*

The Department moved forward with its electronic complaint project by launching a pilot program whereby consumer complaints received by e-mail are electronically transmitted to participating insurers. At the end of 2000, 17 companies were participating in the project. Staff members estimate that electronic submissions speed up the complaint handling process by at least five days. The Department also established an electronic group mailbox to communicate with companies about complaints. Every complaint sent out by the Department now contains the group mailbox address and encourages companies to respond via e-mail. Industry response has been quite favorable, and some companies are now sending all complaint responses exclusively by e-mail.

sumer assistance hotline which the Department hopes to have operational in 2001.

The Department is monitoring federal and state activity with respect to privacy issues, especially the confidentiality of an individual's medical and credit information. Upon clarification from the federal level on how to proceed, our Department will take appropriate action on the state level.

After years of legislative deadlock, Governor George H. Ryan successfully forged a compromise bill to expand the rights of consumers under a health care plan. The **Managed Care Reform and Patients Rights Act** (PA 91-0617), became effective January 1, 2000. Department staff worked throughout the year to verify that health care plans were properly implementing the Act, and will continue to monitor compliance.

Of considerable concern in 2000 was the liquidation of Illinois HealthCare Insurance Company, which wrote individual health insurance for 6,500 Illinois residents. The Illinois Life & Health Guaranty Association was unable to place the business with another carrier, leaving those individuals without health insurance coverage. Because those with existing health conditions were unable to obtain coverage, their only alternative was the state's high risk pool, the Comprehensive Health Insurance Plan. However, funding problems necessitated a freeze on CHIP enrollment and even with CHIP coverage, a preexisting condition waiting period would apply. To remedy the situation, legislation will be introduced in the Spring of 2001 waiving the preexisting condition waiting period for individuals who have lost individual coverage due to an insurance company insolvency.

Two provisions of the Act required the Department to establish new units within the Life, Accident and Health Section. The Act created the **Office of Consumer Health Insurance (OCHI)** to assist consumers with health related issues and to report trends in the health insurance marketplace. It also required OCHI to establish a toll-free consumer hotline which became operational January 2, 2000.

Consumer education initiatives continued with the development of new fact sheets on the Prompt Pay Law, the Small Employer Rating Law and cautions about fraudulent insurance companies. A number of existing fact sheets were updated and the consumer complaint form was modified to make it easier for the consumer to complete and to provide more information to the Department. Discussions began on the installation of a toll free con-

During 2000, OCHI staff received 10,750 calls from 1,042 different zip codes in Illinois. The three most frequently addressed topics were: claims (1,925); continuation of coverage (1,270); and HMO and Point of Service plan concerns (908). OCHI staff also distributed a variety of printed materials including complaint forms and information on health insurance continuation and coverage through the Comprehensive Health Insurance Plan.

The Managed Care Reform and Patients Rights Act also called for a Utilization Review Unit to register those entities that perform utilization review as defined in the Act. During 2000, staff members registered 103 organizations.

The small employer market continued to experience problems in 2000. For example, the overall trend toward increased health care costs and rising premiums have generally required small employers to increase their employees' share of premiums, reduce health care benefits or drop coverage entirely. Some companies writing small employer coverage have also withdrawn from the market. The Department continues to monitor these changes in an effort to ensure small employers accessibility to health coverage for their employees.

	<b>Insurance Companies</b>	<b>HMOs</b>
Underwriting	1,500	20
Marketing and Sales	318	3
Claim Handling	7,684	1,711
Policyholder Service	1,174	23
Not Categorized	<u>2,779</u>	<u>0</u>
<b>Subtotal</b>	<b>13,455</b>	<b>1,757</b>
<b>Total Complaints</b>		<b><u>15,212</u></b>

Auto	3,448
Group A&H	3,517
Individual A&H	1,080
Homeowners	647
Individual Life	862
Individual Annuity	178
Group Credit A&H	86
HMOs	1,757
All Other Coverage	858
<b>Subtotal</b>	<b><u>12,433</u></b>
Not Categorized	<u>2,779</u>
<b>Total</b>	<b><u>15,212</u></b>

<b>At high schools:</b>	
177 schools; 3,890 students	
<b>For community groups:</b>	
168 with 2,313 consumers	
<b>Radio shows:</b>	
179 with an audience of 1,512,000	
<b>Other Presentations:</b>	
5 with an audience of 360	

### *Market Conduct Examination*

In establishing a schedule of examinations, the Market Conduct Section evaluates information gleaned from insurer market conduct annual statements on automobile claims, homeowners coverages, and zip code tracking of company producers by business address. These claim statements allow us to prioritize personal lines carriers for targeted examinations, and along with a review of consumer complaints, and along with a review of consumer complaints, allow us to respond more quickly to the changing marketplace. In 2000, 75% of the exams conducted were targeted.

Market Conduct staff were active on three NAIC working groups to address uniformity in market conduct examinations. The effort is being driven by the federal Graham-Leach-Bliley Act to address such problems as data calls, examiner qualifications and examination procedures. Staff members also participated in three multi-state examinations covering race-based life insurance rates, utilization and review procedures in automobile insurance, and credit insurance issues.

Company compliance with Illinois insurance statutes and regulations, as well as with the insurers' own internal procedures, improved in 2000. Market conduct examinations again noted dramatic decreases in rating overcharges and claim underpayments, resulting in the assessment of fewer civil forfeitures against companies.

Examinations	38
Premium overcharges returned to Illinois policyholders	\$1,255
Additional claim payments made	\$51,028
Civil forfeitures levied (17 insurers)	\$280,000
Corrective orders issued	35

## *Policy Compliance*

The Property and Casualty and the Life, Accident and Health Policy Compliance units are both working on NAIC initiatives to increase the speed at which insurance products can be brought to market. Some of the initiatives include posting our compliance requirements on the Department's website, creating a review requirements checklist, and improving the turnaround time for reviewing filings. Similarly, the compliance units are in the process of implementing an electronic rate and form filing application that will speed up the transmission and review process, as well as provide a measure of uniformity among various states.

During 2000, the Department also began evaluating the use of consumers' credit history information in the underwriting and rating of their homeowners and automobile insurance policies.

<i>Product Filings</i>	
L/AH forms approved	17,694
L/AH informational forms	3,321
L/AH rate filings	709
Advertising for Variable Life & Annuity filings	*1,953
HMO forms approved	1,353
HMO informational forms	190
PPA applications approved/renewed	100
PC form filings reviewed	39,632
PC rate filings reviewed	1,609
*This figure is being reported for the first time since it is a significantly large number.	

## *Producer Licensing and Regulation*

The Producer Licensing Unit develops and administers the licensing examinations required of prospective insurance producers and public adjusters. Those responsibilities are performed through a test administrator at established test sites throughout the state. The examinations are given by computer and electronically graded immediately upon completion. Candidates who pass the examination receive an instant application at the test site. In addition, the licensing staff daily reviews and processes new and renewal applications and issues licenses on line.

During 2000, the transition from a one-year license to a two-year license was completed, and currently all new and renewal licenses are being issued for a two-year period.

The Licensing Unit also has completed a project that allows education providers to submit their rosters of students who completed courses to the Department via the Internet. Currently 35 percent of the education providers are utilizing this service and have been able to more quickly submit completed courses to the Department saving everyone involved time and money.

Licensing staff assisted in drafting Department initiated legislation to comply with the federal Gramm-Leach-Bliley Act (GLBA) requirements for

reciprocity and uniformity in the licensing of non-resident insurance producers. By November 2002, at least a majority of states must enact uniform agent licensing laws and regulations or reciprocity laws and regulations governing the licensure of nonresident agents. If the states are unsuccessful in enacting uniform and reciprocal laws, the federal government will create a national licensing body, the National Association of Registered Agents and Brokers (NARAB), that will encroach upon the states' ability to regulate producer licensing.

<i>Licenses Issued</i>	
Producers licensed	110,703
Firms registered	10,559
Examinations	19,507
Temporary licenses	945
Limited representatives	6,598
Premium finance licenses	285
Public adjuster licenses	186
Third party administrators	467
Certifications/clearances	78,944
Education providers	341
Courses approved	4,623

The Producer Regulatory Unit conducts fiduciary financial examinations of licensed insurance producers and investigates their marketing activities and methods. Such examinations or investigations may result in the issuance of a Director's Order to the producer.

<i>Regulatory Activities</i>	
Financial examinations	185
Investigations	260
<b>Total</b>	<b>445</b>
<b>Results:</b>	
Revocations/surrenders	66
Stipulation & consent orders	75
Civil forfeitures	\$151,700

## *Senior Health Insurance Program*

The Senior Health Insurance Program (SHIP) is a free counseling program for Medicare beneficiaries who have questions or problems about health insurance issues such as Medicare, Medicare supplement insurance, Medicare Health Plans and Long Term Care insurance.

During 2000, SHIP staff and counselors focused on educating Medicare beneficiaries and senior service providers about the changes to Medicare and Medicare supplement insurance made by the Benefits Improvement and Protection Act. The Act expanded preventive services to the Medicare population. SHIP staff and counselors also assisted thousands of Medicare beneficiaries affected by the Medicare HMO withdrawals in Illinois by holding 25 educational meetings statewide.

SHIP initiated a statewide public relations campaign from January through June, in an effort to advertise SHIP services. Finally, SHIP provided education to the Hispanic population in Cook County on all aspects of Medicare and health insurance.

Emerging issues impacting Medicare consumers include the new Private Fee-For-Service plan, prescription drug coverage for beneficiaries and the ongoing changes to the Medicare program. Also, NAIC is reviewing the ten (10) standardized Medicare supplement plans to ensure that they remain current with the needs of today's seniors. SHIP staff continue to reach out to people with Medicare and their caregivers on these important healthcare issues.

<i>SHIP Activities</i>	
• Volunteer hours	20,500
• One-on-one counseling sessions	21,000
• People reached through community, educational and media presentations	660,300
• 800 line calls per month	3,000
• savings to Medicare beneficiaries	\$1,405,000

# Financial Regulation

The Financial-Corporate Regulatory Division is responsible for analyzing and monitoring the financial condition of insurance companies, health maintenance organizations, and all other regulated insurance risk bearing entities, conducting on-site financial examinations, and intervening when developing problems are identified. The Division licenses authorized insurers in the state, and investigates and takes action against unauthorized companies illegally conducting the business of insurance.

The Division is intricately involved in overseeing the management operations of Illinois insurers because by law many corporate transactions, such as entering reinsurance agreements, paying dividends, and transacting business with affiliates, require the prior approval of the Department.

A significant regulatory action in 2000 was the finding of the insolvency of a major Illinois health

maintenance organization—American Health Care Providers, Inc. (AHCP), and its affiliated life, accident and health insurance company, American Unified Life & Health Insurance Company (AULH). After identifying potential financial problems at these two companies late in 1999, Division staff, with assistance from a consulting firm retained to audit the companies, were able to prove that AHCP and AULH were, in fact, insolvent. The two companies were placed first into conservation, and a few months later into liquidation in actions pressed by the Department's receiver's office.

Beginning January 1, 2001, PA 91-0757 gave the Department complete regulatory powers over group workers compensation pools similar to that exercised over insurance companies and other risk-bearing entities. Those pools were previously authorized through the Workers Compensation Act with some oversight by this Department.

## *Actuarial Analysis*

The **Casualty Actuarial Section** contributes to the Department's overall responsibility of maintaining a solvent insurance industry. To fully monitor the reserves held by companies, this Section reviews actuarial opinions regarding the adequacy of companies' carried loss reserves, performs loss reserve analyses on annual statement loss data, reviews work papers supporting the actuarial opinions and participates in on-site financial examinations of insurance companies.

In addition, the Casualty Actuarial staff reviews all rate filings of the Illinois FAIR Plan, the Illinois Automobile Insurance Plan and the Illinois Mine Subsidence Insurance Fund. In 2000, the Section spent a considerable amount of time on special projects, such as:

- Preparation of a statistical analysis of medical malpractice closed claims. This report will be finalized and released in 2001.
- Updating Part 928 of the Illinois Administrative Code. This rule was amended to update the formal requirements of insurers to file medical malpractice information with the Department.

- Participation on the Casualty Actuarial Society's Committee on Professionalism Education and Committee on Reserves.

- Study of the effectiveness of index-based insurance derivatives for use in securitizations.

- Research on the issues related to the use of credit scores in underwriting and rating.

### *Casualty Actuarial Reviews*

Domestic actuarial opinions	195
Foreign actuarial opinions	801
Financial examinations	5
First level loss reserve analyses—domestic companies	134
Tabular discounting—domestic companies	4
Salvage and subrogation amounts—domestic companies	6
Asbestos and environmental reserve amounts—domestic companies	14

On the life insurance side, the **Life Actuarial Section** also contributes to the Department's overall responsibility of maintaining a solvent insurance industry. As in the past, this responsibility is carried out by reviewing actuarial opinions dealing with reserve adequacy and, on a sample basis, actuarial memorandums that document the work supporting the actuarial opinion. Recent regulatory changes gave the valuation actuary more authority in selecting mortality rates for computing reserves for statutory reporting purposes. In response, the Section has developed a procedure for testing the appropriateness of the mortality assumptions using Bayesian statistical techniques. This same technology is also being applied to evaluate reserves for long-term care insurance.

The Section is also involved in investment issues and spearheaded the project that culminated in extending the ability of insurers to use derivative instruments for replication transaction purposes. The project involved modifying the statutory financial statements to identify the types of replication

transactions, adopting accounting rules, and developing rules for risk-based capital purposes that measure the additional risk of these transactions relative to the cash market component. Lastly, the Life Actuary organized an educational seminar for the financial examination staff on this project.

<i>Life Actuarial Reviews</i>	
Actuarial opinions	100
Actuarial memorandums	7
Narrative reports (annual and quarterly)	130
Actuarial balance sheets and tax levies for public pension plans	569
Cost estimates for benefit transfers under the policy portability legislation	26
Medicare supplement, long term care and credit life rate filings	approximately 430
A&H claim reserve adequacy analysis/expanded financial monitoring	52

### *Financial Analysis and Regulation*

During the year 2000, the **Financial Regulation Section** began work on several projects associated with the implementation of the new NAIC Accounting Practices and Procedures Manual that becomes effective January 1, 2001. Progress on these projects will help assure the Illinois Department's continued, fully accredited state regulator status.

The expansion of the manual was accomplished through the efforts of insurance regulators from nearly all states, whose goal was to codify a comprehensive set of statutory accounting guidelines that would be adopted nationwide. During 2000, several staff analysts attended NAIC sponsored training seminars on this topic. Those analysts who did not attend the seminars viewed videotapes of the presentations. As a result, the financial analysis staff has a clearer understanding of the required accounting guidance and are equipped to answer questions from regulated companies, which help those companies do a better job of complying with the manual.

To effectively deal with questions of compliance and interpretations of specific, statutory accounting principles, the Department formed a Statutory Ac-

counting Issues Committee comprised of five financial analysts. Questions related to clarification or interpretation may be submitted by domiciled insurance companies, outside insurance company consultants, the Department's financial examination staff, and other financial analysts. The recommended decisions of the Committee are reviewed by Unit Supervisors, the Section's Assistant Deputy Director and the Division's Deputy Director prior to providing an official response to the inquiry. To date the Department has provided clarification on some 20 interpretive requests.

The Department has also implemented procedures to assure that appropriate consideration is given to any request submitted by a domestic insurer to use an accounting practice that differs from that prescribed by the NAIC Accounting Practices and Procedures Manual. Once requested, these matters are subject to the same review procedures as recommendations on interpretations made by the Statutory Accounting Issues Committee. The Department is using this procedure to review and update any permitted practice that has been previously issued. The response from the domestic industry has been positive.

During the year, the Department also took steps to enhance the efficiency and thoroughness of the financial reviews that are performed by the Section. Each financial analysis unit updated its guidelines for determining the priority of statement review and also compared its financial analysis worksheets to the

NAIC Financial Analysis Handbook. As a result, the Section has the tools necessary to quickly identify instances of failed compliance with statutes and regulations, as well as situations that may lead to a hazardous financial condition.

### *Financial Examination*

Illinois law requires the Department to examine the financial condition of insurance companies licensed to do business in Illinois, not less than once every five years. On-site financial examinations determine a company's financial solvency, compliance with Illinois laws and regulations, and reliability of financial statements filed with the Department, and develop the information needed for timely, appropriate regulatory action.

As part of the Agency Program Performance Objectives, the Financial Examination Section developed a system for supervisors and examiners in charge to routinely assess the degree to which examinations are thorough and complete.

The Financial Examination Section organized and presented various educational seminars during 2000, which provided the financial examination staff up to 32 hours of continuing regulatory education credits necessary to maintain CPA, CFE, and AFE professional designations. One emphasis of these seminars was developing regulatory understanding of functional responsibilities between the Department and the national banking regulators in order to carry out our duties as they relate to the Gramm-Leach-Bliley Act. The Section also regularly participates and takes a leadership role in planning and attending the Society of Financial Examiners Career Development Seminar as well as seminars hosted by the Illinois CPA Society.

The Financial Examination Section began an aggressive recruiting campaign in 2000 to attract qualified candidates to fill open positions on the financial examination staff. Recruitment efforts were driven by changes in the economic environment, complex insurance products, federal mandates, and consolidations and mergers, all of which have put a strain on maintaining an adequate and stable workforce necessary to meet the Section's needs.

An audit software tool called ACL has become a standard on financial examinations. It has increased the surveillance capabilities of the financial examination staff to review large data files independent of the company's electronic data center. A majority of the statistical work is accomplished on the examiner's laptop computer, and over half of the financial examination staff has received instruction on basic and advanced ACL concepts.

<i>Completed Financial Examinations</i>			
<b>Property &amp; Casualty</b>		<b>Life, Accident &amp; Health</b>	
Comprehensive	57	Comprehensive	15
Compliance/Target	<u>14</u>	Compliance/Target	4
		Actuarial Examination	12
		Actuarial Valuation	<u>8</u>
<b>Totals</b>	<b><u>71</u></b>		<b><u>39</u></b>

*Licensed Property and Casualty Insurance Companies*

	Domestic	Foreign	Alien	Total
Stock	173	707	10	890
Stock Captive				
Pure	3			3
Association				0
Industrial Insured	1			1
Stock Risk Retention Group	1			1
Stock Surplus Line	4			4
Mutual	16	77		93
Mutual Risk Retention Group	1			1
Reciprocal	4	18		22
INEX Insurance Exchange	1			1
Syndicates	10			10
Limited Syndicates				0
Lloyd's			1	1
Farm Mutuals	112			112
Accredited Reinsurers	—	14	9	23
<b>Total</b>	<b><u>326</u></b>	<b><u>816</u></b>	<b><u>20</u></b>	<b><u>1,162</u></b>

*Licensed Life, Accident and Health Insurance Companies*

	Domestic	Foreign	Alien	Total
Stock Legal Reserve Life	77	508	6	591
Mutual Legal Reserve Life	6	47		53
Assessment Legal Reserve Life	2			2
Mutual Benefit Association	1			1
Burial Societies	2			2
Fraternal Benefit Societies	20	58	1	79
Voluntary Health Service Plans	9			9
Vision Service Plan				0
Dental Service Plan	1			1
Health Maintenance Organizations*	12	15		27
Limited Health Service Organizations	8	1		9
Accredited Reinsurer		4		4
Mutual Holding Company	2	—	—	2
<b>Total</b>	<b><u>140</u></b>	<b><u>633</u></b>	<b><u>7</u></b>	<b><u>780</u></b>

\*Includes 3 general not-for-profit corporations, 23 for-profit corporations, and 1 voluntary health service plan corporation. Eleven (11) legal reserve life companies also offer an HMO plan as a line of business; however, no company is counted more than once in the above classifications.

*Other Licensed Entities*

Reinsurance intermediaries	35
Religious and charitable risk pooling trusts	11
Group workers compensation pools	20
Service companies for group workers compensation pools	31
Self-insured auto fleets	44
Resident surplus lines producers	476

*Registered Entities*

Purchasing groups (organized to purchase commercial liability insurance for the members)	472
Foreign registered risk retention groups (insurance companies organized to write only commercial liability insurance on behalf of their owner-members)	47
Service contract providers	150

*Pension Regulation*

The Pension Division regulates the suburban and downstate police and firefighter pension systems and collects vital information from those funds as well as from the large State of Illinois, Cook County and Chicago pension systems, including the Illinois Municipal Retirement System. Public pension funds continue to grow at a dramatic rate in several ways, including new pension funds, increased beneficiaries, increased benefits, and increased assets. The total number of funds in 2000 increased to 603 from 599 in 1999, and includes over 3700 trustees. The total number of participants increased to 585,607 and benefits paid totaled over \$4.1 billion to 273,847 beneficiaries. The total assets in all the funds have increased to over \$100 billion.

With the completion of the decennial census, several towns in Illinois have reached the 5000-population threshold for the creation of police and fire pension funds as directed by 40 ILCS 5/3-101 or 40 ILCS 5/4-101.

Pension Division examinations resulted in over 270 findings in the year 2000. The Division expanded its audits to include large funds through the new initiative of "agreed upon procedures" in collaboration with CPA audit firms.

For the third year the Pension Division has received electronically filed pension fund annual statements from all of the public pension funds. This project is currently being updated with a new database and interface application to better serve the public pension funds.

Pension staff offered fourteen workshops and seminars to the 588 downstate police and firefighter pension funds, members, trustees and officers. In addition, staff held 44 meetings with different pension fund organizations and large pension funds. This type of interaction improves operations for all public pension funds in the state. Two new task forces, the Investment Task Force and the Electronic Task Force were created on the Advisory Services Committee to discuss the respective topics and advance improvements in each arena. The Division also submitted three articles to the nine public pension organizations' newsletters and sent out five legislative updates to all the downstate pension funds.

The Division performs an actuarial study and calculates tax levies for the downstate police and firefighter pension funds and provides this information to them for use with their local municipalities. The Division also performs complicated calculations for police portability along with answering questions about this benefit. Historical tax levy calculations are supplied to local municipalities upon request as well as calculations for the legislature and Pension Laws Commission. The Division also supplies potential new fund tax levy report calculations to assist municipalities with real cost data for their future employee pension fund.

The Division handled over 5000 phone calls in 2000 including inquiries from police and firefighter pension funds needing assistance with the operation of their respective funds; investment fund managers requesting information regarding investments; professional pension organizations; and members of the state legislature. The Division answered over 100 letters requesting an opinion to settle questions arising from pension fund opera-

tions and over 1000 written inquiries from individuals and groups within the pension arena. The Division made over 52 pension calculations for the smaller funds for retiring members.

Two key pieces of legislation relating to an increase in police pensions and defined contributions for police pensions were passed in 2000.

<i>Pension Funds</i>	
Downstate police funds	324
Downstate firefighter funds	<u>264</u>
	588
Large funds	<u>15</u>
Total funds	603
Total trustees	3,712
Total assets	\$ 103.33 billion

## Legal Division

The Legal Division provides a variety of legal services, advice and counsel to the Director and Department staff. Members of the Division represent the Department in administrative hearings on regulatory issues; draft regulations; review proposed legislation and assist in the drafting of insurance related legislation; draft and review contracts; review regulatory files; research and draft opinions; respond to consumer and industry inquiries; respond to Freedom of Information Act requests; ensure timely and complete compliance with subpoenas served on the Department; and assist Department staff as required.

As in past years, members of the Division have been active with the NAIC on continuing issues of national import such as Holocaust Era claims and most recently, state compliance with the Gramm-Leach-Bliley Act, particularly in the areas of confidentiality and privacy. Department regulations addressing these privacy issues are being promulgated.

This past year saw a number of lawsuits being filed against the Department seeking a refund of previously paid premium taxes. These suits are progressing through the courts.

<i>Legal Activities</i>	
Administrative hearings scheduled	59
Freedom of information requests processed	333
Opinions issued	96
Legislation reviewed	336
Regulatory files reviewed	185
Miscellaneous matters reviewed	72
Rules adopted	16
Subpoenas processed	26